News Release

Japan Credit Rating Agency, Ltd.

24-I-0071
December 18, 2024

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

ESR Group Limited (security code: -)

<Outlook Change>
Foreign Currency Long-term Issuer Rating: AA-
Outlook: from Stable to Negative

<Affirmation>
Bonds: AA-

Rationale

(1) ESR Group Limited (ESR) is a real estate investment group with its main base of activities in Asia. ESR is a comprehensive real estate asset management company that acquires and manages land and buildings, mainly advanced logistics facilities and data centers, manages listed REITs and private funds, and develops real estate. The rating reflects the creditworthiness of the group based on the integration with the group's operating companies. The rating reflects the group's presence in the Asian market, access to influential investors for co-investment and thereby reduced development risk, stable cash flow generation backed by fund management income, and high financial soundness backed by strict financial discipline.

(2) Financial performance has been deteriorating due to the worsening in real estate market conditions in mainland China and Hong Kong. Due to the recording of fair value losses in relation to China assets disposal and a decrease in performance fees, the group has posted a net loss in the first half of 2024. JCR have changed the outlook from Stable to Negative, judging that the burden on profitability has intensified and downward pressure on the rating has mounted at this moment. In the "New Economy" segment, which is centered on advanced logistics facilities, ESR has strong competitiveness and continues to hold co-investment relationships with leading investors around the world and has secured a certain "earning capability" such as management fee income from the funds. ESR is actively reducing its interest-bearing debt by selling assets held by its asset management subsidiary, ARA Asset Management Limited (ARA), which was acquired in January 2022, as well as non-core assets such as US Hospitality Trust. Going forward, JCR will assess the recovery pace of operating income and the progress of debt compression through its asset sales and reflect them in the rating.

(3) ESR was established in 2016 through the merger of e-Shang and Redwood, with its registered office in the Cayman Islands and substantive headquarters in Hong Kong. The group was listed on the Hong Kong Stock Exchange in November 2019. In January 2022, ESR acquired ARA, a Singapore-based real estate management company, along with its subsidiary LOGOS. Since its establishment in 2002, ARA had expanded its business primarily in Singapore, Hong Kong, and Mainland China, building a strong real estate asset management platform with particular expertise in logistics facilities and data centers. The acquisition of ARA significantly boosted ESR's Assets Under Management (AUM), reaching USD 156 billion at the end of 2023, with fee-generating AUM (excluding uncalled capital and associates) amounting to USD 81 billion. ESR now ranks the first in Asia and the third globally among listed real estate fund managers. The regional composition of its fee-generating AUM demonstrates well-diversified coverage, with 21% in India, Southeast Asia and Pan APAC, 19% in Japan and South Korea, 18% in Australia and New Zealand, 17% in Mainland China, 16% in the U.S. and Europe, and 9% in Hong Kong. Stable fee income, calculated at fixed rates against AUM, serves as a robust revenue base, covering operational costs and providing a predictable and sustainable financial foundation for repayment. Over 53% of fee-generating AUM is concentrated in "New Economy" assets, including advanced logistics facilities and data centers. ESR's clients include leading e-commerce companies in Asia. With the rapid expansion of e-commerce and ongoing digitalization across Asian countries, demand for these assets is expected to continue growing steadily.

(4) The portfolio consists of numerous assets with a well-diversified regional composition, providing relatively stable cash flows supported by AUM. However, many of the assets are classified as real estate and real estate equity investments, which inherently carry risks associated with fluctuations in the real estate market. In the first half of 2024, a net loss of USD 58 million was recorded, primarily due to valuation losses from impending asset sales and a decline in performance fees. As a result of

decreasing reserves and increasing interest-bearing debt, the net debt-to-equity ratio rose from 40.4% at the end of 2022 to 63.4% at the end of the first half of 2024. In the second half of 2024, the group aims to execute USD 335 million of the planned USD 750 million sale of non-core assets. ESR aims at reducing interest-bearing debt by USD 1.2 billion through various measures.

(5) On May 13 of this year, ESR announced that it had received a proposal from an investment consortium comprising Starwood Capital Operations, L.L.C., Sixth Street Partners, LLC, and SSW Partners LP to privatize the group. The proposal involves either a cash buyout of shares or an exchange for shares of a new company. To evaluate the proposal, an independent committee of directors was established, and after continued deliberation, ESR announced on December 4 that it had signed an agreement to proceed with the proposal. The privatization will be executed subject to the fulfillment of certain conditions. According to the announcement, the consortium, which currently holds 39.9% of ESR's existing shares, has committed to an additional equity investment of USD 2.1 billion and the establishment of a USD 1.5 billion credit facility, in addition to the share exchange for the new company's stock. Approximately 30% of the other disinterested shareholders, representing about half of the non-consortium shareholders, have already expressed their irrevocable intention to accept the share exchange offer. The remaining 30% of shares to be acquired will be funded through the consortium's additional equity investment and its loans to the new company. A deadline of September 2025 has been set for the decision by the remaining shareholders, and the loan amount could be reduced depending on the number of shareholders opting for the share exchange. JCR views it as necessary to monitor ESR's financial management policies following privatization. However, it also considers that loans to the new company will be repaid using cash flow generated from the ESR's fee and dividend incomes, and thus will not materially impact the ESR's financial structure.

Atsushi Masuda, Shinji Asano

Rating

Issuer: ESR Group Limited

<Outlook Change>

Foreign Currency Long-term Issuer Rating: AA- Outlook: Negative

<Affirmation>

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
JPY20,000,000,000 1.163 per cent. Fixed Rate Notes due 2026	JYP20.0	July 10, 2023	July 10, 2026	1.163%	AA-
JPY10,000,000,000 1.682 per cent. Fixed Rate Notes due 2030	JYP10.0	July 10, 2023	July 11, 2030	1.682%	AA-

Rating Assignment Date: December 13, 2024

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (October 1, 2024), "Real Estate" (June 1, 2023) and "J-REIT" (July 3, 2017) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	ESR Group Limited
Rating Publication Date:	December 18, 2024

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
ESR Group Limited	Issuer(Long-term)(FC)	March 3, 2023	AA-	Stable
ESR Group Limited	JPY20,000,000,000 1.163 per cent. Fixed Rate Notes due 2026	June 30, 2023	AA-	
ESR Group Limited	JPY10,000,000,000 1.682 per cent. Fixed Rate Notes due 2030	June 30, 2023	AA-	

Attachment

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

杉浦輝一

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General Manager of International Department

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